HOUSE REPUBLICAN CONFERENCE

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DEBORAH PRYCE, CHAIRMAN

Strengthening and Reforming Student Loans: Protecting Students and Taxpayers

Courtesy: House Committee on Education and the Workforce

Out-of-control entitlement spending is a threat to every American, from students and families to workers and retirees. Congress has pledged to rein in runaway spending and reform outdated entitlement programs that aren't meeting the needs of those they are supposed to serve. <u>A key component of that effort is to reform and strengthen student loan programs to improve program efficiency and effectiveness and expand student benefits</u>. The Deficit Reduction Act reauthorizes mandatory spending programs under the Higher Education Act and includes protections for taxpayers coupled with key benefits for students. The bill generates billions in savings and helps reduce the deficit while directing significant resources to expand college access.

Strengthening and Reforming Student Loans

- **Improving program efficiency by reducing lender subsidies**. Excess lender subsidies known as "floor income," any rate of return higher than the guaranteed minimum, will be eliminated, and federal insurance against defaulted loans will be reduced by one percent to shift a greater share of risk to private sector loan providers. Building on Republican efforts to protect students and taxpayers, the 9.5 percent minimum rate of return, which was previously available to some lenders but was closed off through Republican efforts in 2004, will be eliminated permanently and comprehensively while offering limited flexibility for small non-profit student aid providers to phase out the subsidies without jeopardizing student benefits.
- **Increasing loan limits to give students access to more financial aid.** Loan limits for first-year students were last adjusted in 1986, and for second-year students in 1992. To better reflect current student need, first-year student limits will increase from $2,625 to $3,500 and second-year student limits will increase from $3,500 to $4,500. However, <u>aggregate undergraduate borrowing limits will remain unchanged at $23,000</u>, ensuring students are not saddled with unnecessarily high debt loads. Graduate unsubsidized annual borrowing limits will increase from $10,000 to $12,000, and additional borrowing flexibility will be available for students pursuing certificate programs.
- **Reducing loan fees so students can keep more of what they borrow.** Total loan fees will be reduced from up to four percent today to just one percent on all student loans. The phase down in fees is coupled with a stronger default protection structure that will protect students and taxpayers, reduce loan costs for all students, and equalize the treatment of students in the guaranteed and Direct Loan programs.

- **Retaining scheduled interest rates for students and graduates.** Student loan interest rates will be set at 6.8 percent beginning on July 1, 2006, maintaining current law and reflecting bipartisan agreements developed in 2001 with student and college stakeholders.
- **Providing new loan opportunities for graduate students.** Graduate students will, for the first time, be able to access PLUS loans, which allow borrowing up to the cost of attendance to provide a new source to help finance graduate study.
- **Allowing consumers to shop for the best deals on consolidation loans by eliminating the "single-holder" rule.** The "single holder" rule, which limits consumers' ability to consolidate with the lender of their choice, will be repealed. All borrowers will now have the ability to shop around among lenders for the best terms and services.
- **Making common sense consolidation loan changes to protect consumers.** To protect against future defaults and help borrowers regain good standing and clear up negative credit history, the proposal encourages loan rehabilitation rather than simply allowing consolidation out of default. The proposal also: eliminates loopholes that have been used to pressure borrowers into multiple consolidations or consolidation while still enrolled in school, which could cause students to lose future benefits; and repeals a provision that allows spousal consolidations that create financial and legal havoc for borrowers (spouses will still individually be fully eligible for consolidation loans).
- **Preventing conflicts of interest in the 'school as lender' program.** In the very narrow program in which schools can also act as lenders, the potential for a conflict of interest arises when schools making loans stand to benefit financially from increases in student debt. No new schools will be permitted to enter this arrangement, and to protect student interests, additional restrictions will be applied to schools already participating to ensure proceeds are directed to need based aid.
- **Preserving the balance between traditional and direct student loans.** The proposal will maintain the balanced approach between direct lending and traditional lending adopted in recent years, aligning loan terms and benefits to ensure all students are treated equally.
- **Preventing fraud and abuse in federal student aid.** An IRS data match system to verify financial aid information will be permitted to ensure student financial aid is reaching students who need it the most and funds are not being wasted or misused.
- **Clarifying federal student aid rules on drug-related offenses.** The proposal will clarify current federal law prohibiting students from receiving federal grant, work or loan assistance if they have been convicted of an offense under federal or state law involving the possession or sale of a controlled substance. Consistent with congressional intent when the provisions were first established in 1998, the law will apply to students who are currently enrolled, receiving federal Title IV aid, and convicted of the offense.

Expanding College Access

- **Giving students and schools greater flexibility to take advantage of distance education.** Current federal rules on schools limit the number of students who can be enrolled in distance education, and the number of courses an eligible institution may offer via distance education. To ensure the higher education system can take advantage of technological advancements that create new opportunities for students and schools, the so-called "50 percent rule" restricting instruction by telecommunications will be repealed. Financial rules, administrative capability rules, and accreditation safeguards will remain in place to prevent fraud and abuse. By removing unnecessary barriers to distance education, schools will have the flexibility to increase the use of technology and provide students with new postsecondary options.

- **Increasing grant aid for students studying math and science.** Building on reforms included in the *College Access & Opportunity Act* (H.R. 609) to strengthen U.S. competitiveness, additional grant aid will be provided to low-income, high achieving students in the first and second years, and low-income, high achieving students pursuing degrees in the key subject areas of math, science, and critical foreign languages in the third and fourth years.
- **Simplifying the financial aid process for students and families.** To make it easier for the neediest students to participate in federal student aid programs, the proposal will simplify and expand eligibility for use of the "simplified needs test" and automatic zero expected family contribution to determine how much aid a family qualifies to receive.
- **Allowing students to earn more money without losing their financial aid.** Students will be able to earn more money to contribute to the cost of college without negatively impacting their eligibility to receive federal student aid.
- **Making common sense changes to financial aid calculations.** The treatment of 529 savings plans and pre-paid tuition plans will be aligned to benefit students and families; technical corrections will be made to assist students attending school less than half-time; unique state tuition plans will be treated equally in calculating cost of attendance and student financial aid packages; and families with small businesses will not be punished in financial aid calculations.
- **Providing students with information about college access.** A new College Access Initiative will be established to coordinate all statewide college access information through the guarantors in the student loan program.
- **Permanently expanding student loan relief for high demand teachers.** Building on efforts in recent years to help states and schools recruit and retain highly qualified teachers in key subjects, Congress has more than tripled the amount of loan relief for highly qualified math, science, and special education teachers who commit to teaching in high-need K-12 schools for five years. The expanded loan relief first enacted in 2004 will be made permanent, with maximum federal loan forgiveness for such teachers increasing from $5,000 to $17,500.
- **Easing financial burdens on active duty soldiers.** Active duty members of the military may receive loan deferment – meaning payments are not required and interest will not accrue – when serving the nation.
- **Strengthening higher education opportunities for military personnel.** Recognizing the unique needs of military personnel seeking a higher education while serving in the Armed Forces, active duty members of the military will be treated as independent students, which could allow access to greater financial aid opportunities.

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